Title: All About Annuities

Today we are going to talk about annuities. You've probably heard of them before and some of you might be quite familiar with annuities as an option. However, they can be confusing and have many different options. So today we are going to work on simplifying the concept of an annuity.

First of all, what is an annuity? An annuity is an insurance product you can buy to seek some of the following benefits: generate lifetime income, grow tax-deferred retirement savings, and provide a legacy to your heirs. An annuity is a contract with an insurance company that may promise a certain level of income for life.

So now that we have defined what an annuity is, how does it work? You pay money into the insurance company; in return you receive an income stream specified by the contract. Alternatively, you may elect not to take periodic income payments - enabling interest to accumulate within the annuity - and then withdraw a lump sum at the end of the contract period.

There are also tax benefits to an annuity. Money grows tax-deferred within the annuity, meaning you pay no tax on the earnings until you take them out. And unlike 401(k)s and IRAs, there is no annual limit on the amount you can put in a non-qualified annuity.

There are several different types of annuities and a wide variety of "riders" you can add. Let's first look at some of the basic kinds of annuities.

A fixed rate annuity has a stated rate of return and no loss of principal due to market downturns. A fixed indexed annuity has a rate of return that may be linked to an external market index (like the S&P 500), but still may offer a minimum rate of return and no loss of principal or interest credits if the market index declines. So, if the market index rises, interest is credited to the annuity.

A variable annuity offers a choice of investment sub-accounts, like the choices in a 401(k). This provides a chance to earn higher returns than a fixed annuity or fixed indexed annuity but with greater risks, including potential loss of principal. There are also choices based on when you want to start taking income from an annuity. Just as the name suggests, an immediate annuity starts paying you income very soon after you buy it.

A deferred annuity doesn't start paying income until a point you designate in the future. In the meantime, your money earns a rate of return that's "rolled up" or added to the account and income value within your annuity. In fact, you don't ever have to take income out of the annuity, if you don't need it. The money can keep growing, tax deferred.

There are always tradeoffs in making any kind of purchase. In an annuity, one tradeoff is between certainty and return. Generally, annuities offer greater certainty of retirement income, but may have a lower rate of return than some other financial products.

Now let's look at caveats – the "due diligence" you need to do before making a financial commitment. Is it right for you? Annuities aren't for everyone. You need to be certain an annuity is right for you, and after that which annuity is the right choice for your retirement needs.

One thing to be aware of is that annuities may charge fees in some instances. The fees can vary tremendously based on the kind of annuity you buy, the riders you add and the company offering it.

Another thing to understand is that annuities are a long-term commitment and they are primarily designed for retirement income. If you take an early withdrawal, you may incur a surrender charge. Additionally, if you take funds out before the age of 59½, there may be an additional 10 percent IRS penalty.

Also important is that the insurance company, not the government, guarantees your annuity, so it is recommended that you check out their financial strength by going online to independent ratings agencies such as AM Best, Moody's and Standard and Poor’s.

Disclosure:

All written content on this site is for information purposes only. Opinions expressed herein are solely those of Strategic Wealth Advisors Group, Inc. and our editorial staff. Material presented is believed to be from reliable sources; however, we make no representations as to its accuracy or completeness. All information and ideas should be discussed in detail with your individual adviser prior to implementation. Fee-based financial planning and investment advisory services are offered by Strategic Wealth Advisors Group, Inc. a Registered Investment Advisor in the State of Michigan. Insurance products and services are offered through Strategic Insurance Group, Inc. Strategic Wealth Advisors Group, Inc. and Strategic Insurance Group, Inc., are affiliated companies. The presence of this web site shall in no way be construed or interpreted as a solicitation to sell or offer to sell investment advisory services to any residents of any State other than the State of Michigan or where otherwise legally permitted. Strategic Wealth Advisors Group, Inc., Strategic Insurance Group, Inc., Tim Sullivan, independent agent, is not affiliated with or endorsed by the Social Security Administration or any other government agency.